

## Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)

REVIEW OF YUGOSLAVIA

REF: PARIS 11676

1. DUE TO MANPOWER PROBLEMS, EMBASSY WILL UNFORTUNATELY BE UNABLE TO PARTICIPATE IN THE EDRC REVIEW OF YUGOSLAVIA THIS YEAR. APPRECIATE INVITATION. AS REQUESTED IN REFTEL, PARAGRAPHS TWO THROUGH FIVE CONTAIN OUR COMMENTS ON THE SECRETARIAT'S ANALYSIS AND RECOMMENDATIONS, WITH WHICH WE ARE IN GENERAL AGREEMENT.

2. 1977 ECONOMIC TRENDS. THE RESULTS FOR THE FIRST QUARTER OF THE YEAR CONFIRM AND SOMEWHAT STRENGTHEN REFTEL'S COMMENTS ON THE REVIVAL OF INDUSTRIAL PRODUCTION, THE PROBLEMS OF INFLATION, AND THE PROBABILITY OF A CURRENT ACCOUNT DEFICIT FOR THE YEAR. INDUSTRIAL PRODUCTION IS UP 9.9 PERCENT OVER THE FIRST QUARTER OF 1976 AND 6.5 PERCENT OVER AVERAGE 1976 PRODUCTION. THE COST OF LIVING HAS RISEN 5.9 PERCENT IN THE FIRST QUARTER AND 12 PERCENT IN THE LAST FIVE MONTHS (NOVEMBER THROUGH MARCH). WHILE RETAIL AND PRODUCER PRICES HAVE RISEN AT A LESS RAPID RATE, THEY ARE STILL ABOVE THE LEVELS SPECIFIED IN THE 1977 RESOLUTION. IMPORTS HAVE

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RISEN 32 PERCENT OVER THE FIRST QUARTER OF 1976 AND EXPORTS 18 PERCENT. THE NET RESULT IS A TRADE DEFICIT WHICH IS 56.8 PERCENT OR 340 MILLION DOLLARS HIGHER THAN THE FIRST QUARTER OF 1976. THESE FIGURES, ALONG WITH THE RIVIVAL OF INDUSTRIAL PRODUCTION AND SUBSEQUENT NEED FOR IMPORTED RAW MATERIALS AND CAPITAL EQUIPMENT, SUGGEST THAT THE CURRENT ACCOUNT DEFICIT AND IMPORT INCREASE FOR THE YEAR MAY BE HIGHER THAN THE 400 MILLION

DOLLARS AND 8 PERCENT ENVISIONED BY REFTEL. WHILE NO FIGURES ARE YET AVAILABLE FOR 1977 INVISIBLE EARNINGS, EARLY REPORTS FROM FOREIGN BOOKING AGENCIES INDICATE THAT FOREIGN TOURIST VISITS TO YUGOSLAVIA WILL BE AT OR BELOW LAST YEAR'S LEVELS.

3. SUGGESTED QUESTIONS FOR THE REVIEW:

A. FIVE-YEAR PLAN. WILL THE DELAY IN SIGNING THE PRIORITY SECTOR SOCIAL ACCORDS, WHICH ARE AN ESSENTIAL PART OF THE MEDIUM-TERM PLAN, ENDANGER THE SUCCESSFUL ACHIEVEMENT OF THE PLAN TARGETS? SEVERAL OF THE PROJECTS HAVE A LONG LEAD TIME AND 15 MONTHS INTO THE PLAN SUCH MAJOR SECTORS AS ENERGY AND AGRIBUSINESS ARE STILL NOT COVERED BY AGREED SOCIAL ACCORD.

B. IF TRADE CONTINUES AT THE SAME LEVEL AS THE FIRST QUARTER, THE TRADE DEFICIT FOR THE YEAR WOULD BE OVER 1.4 BILLION DOLLARS GREATER THAN IN 1975. WHAT ADDITIONAL STEPS HAVE THE YUGOSLAVS CONTEMPLATED TO BRING IMPORTS MORE INTO LINE WITH THE 8 PERCENT INCREASE WHICH IS PLANNED?

C. THERE HAVE BEEN MANY PRESS REPORTS ABOUT THE INCREASED BALANCE OF PAYMENTS RESPONSIBILITIES OF THE REPUBLICS AND AUTONOMOUS PROVINCES. EXACTLY WHAT RESPONSIBILITIES, AUTHORITY, AND CONTROL WILL THE REPUBLICS AND PROVINCES HAVE OVER THE FOREIGN EXCHANGE EARNINGS AND EXPENDITURES OF ENTERPRISES?

4. EMPLOYMENT. AS REFTEL POINTS OUT, EMPLOYMENT IS A MAJOR PROBLEM IN YUGOSLAVIA AND WILL CONTINUE TO BE ONE AS GUEST WORKERS RETURN (ABOUT 8,000 DID SO IN 1976 AND A FURTHER 300,000 ARE EXPECTED TO RETURN BY THE END OF 1980) AND THE CHANGEOVER FROM AN AGRICULTURAL TO AN INDUSTRIAL SOCIETY CONTINUES. THE NUMBER OF JOB SEEKERS HAS STEADILY RISEN FOR SEVERAL YEARS AND WILL LIMITED OFFICIAL USE

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PROBABLY CONTINUE TO DO SO FOR THE NEAR FUTURE. EMBASSY BELIEVES, HOWEVER, THAT THE INCREASES IN INDUSTRIAL PRODUCTION IN 1977 WILL BE SUFFICIENTLY HIGH TO ALLOW AN EMPLOYMENT INCREASE AT LEAST AS HIGH AS THE 3.4 PERCENT IN 1976 AND PRODUCTIVITY GAINS. THE YUGOSLAV EXPERIENCE HAS SHOWN, MOREOVER, THAT EMPLOYMENT INCREASES HAVE MORE PRIORITY THAN PRODUCTIVITY, REGARDLESS OF SPEECHES OR PLANNING DOCUMENTS WHICH MAY INDICATE THE OPPOSITE.

5. PLANNING PROCESS AND INVESTMENT ALLOCATION. WHETHER YUGOSLAVIA IS MOVING TOWARD DECENTRALIZATION OR INCREASING CENTRALIZATION IN ITS PLANNING AND INVESTMENT PROCESS IS MORE A VALUE JUDGMENT THAN A MATTER OF FACT. EARLIER MEDIUM-TERM PLANS, FOR EXAMPLE, CONTAINED GOALS AND INVESTMENT ALLOCATIONS MADE BY THE FEDERAL GOVERNMENT. THESE PLANS WERE GUIDELINES ONLY, HOWEVER, AND WERE NOT ENFORCEABLE. THE PLANNING TARGETS VERY OFTEN HAD LITTLE TO DO WITH ACTUAL INVESTMENTS MADE DURING THE PERIOD, AS ENTERPRISES TO A LARGE EXTENT DID WHAT THEY INDIVIDUALLY DECIDED. THE PRESENT PLANNING SYSTEM, WHILE BEGINNING AT THE LEVEL OF THE BOAL (BASIC ORGANIZATION OF ASSOCIATED LABOR) AND WORKING UP THROUGH THE

REPUBLICS AND PROVINCES, HAS STRONG FEDERAL INFLUENCE AND DIRECTION IN THE SETTING OF OVERALL GOALS, PARTICULARLY FROM THE FEDERAL EXECUTIVE COUNCIL. REQUIRED COORDINATION AND COOPERATION IN A WHOLE SERIES OF AREAS TAKES AWAY INDIVIDUAL ENTERPRISE DECISION-MAKING. THEREFORE, IT IS DIFFICULT TO SAY WHETHER THIS SYSTEM IS NOW MORE DECENTRALIZED, PARTICULARLY SINCE IN THEORY AT LEAST, THIS SYSTEM WILL ACTUALLY BE APPLIED. THE PLANNING SYSTEM, HOWEVER, IS A REALITY AND A CENTRAL PART OF THE YUGOSLAV SELF-MANAGEMENT SYSTEM. WHILE QUESTIONS AND COMMENTS ON THE EFFICIENCY OF THIS SYSTEM AND YUGOSLAV PLANS TO IMPROVE UPON IT ARE IN ORDER, THE SUGGESTION OF THE SECRETARY THAT NO CHANGE OR DE-EMPHASIZE IT IN FAVOR OF A MORE MARKET-ORIENTED APPROACH HAS LITTLE CHANCE OF SUCCESS.

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